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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 001707

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SUBJECT: U.S.-ISCI ECONOMIC DIALOGUE: PRIVATE SECTOR DEVELOPMENT

REF: BAGHDAD 1569

Classified By: Economic Minister-Counselor Daniel Weygandt for reasons 1.4 (b) and (d).

¶11. (C) Summary: Participants at the second meeting of the U.S.-ISCI economic dialogue discussed U.S. agriculture and micro-credit programs and the need for private sector development. (Note: At a party conference on May 10 and 11, SCIRI decided to change its name to the Supreme Iraq Islamic Council - al-majlis al-alya al-Islamiya al-Iraqi; ISCI. End note.) ISCI representatives also offered assistance in developing local partnerships and resolving problems. They indicated interest in more information on the fuel availability monitoring work at the embassy and textile developments in other countries in the region, which will be topics for future sessions. The dialogue provides a useful opportunity to focus a key political player on the challenges in Iraq to economic growth and development and the importance of ending the violence, the key impediment to that growth.
End Summary

¶12. (C) The second US-ISCI economic dialogue took place on May 16 at the residence of Vice President Adel Abdel Mehdi. Vice President Abdel Mehdi welcomed the group at the beginning and joined again towards the end. While he was out of the room, his advisor Ambassador Mohammed Ali Al-Hakim chaired the meeting, which also included VP and Minister of Finance Advisor Azez Jafar, and VP Advisor Zuhair Humadi. The U.S. side consisted of the Economic Counselor as chair, USAID Acting Director, ITAO Chief of Staff and Emboffs. The committee agreed to meet again in two weeks, and the next session will include a presentation of the U.S. Mission's Fusion Cell activities.

VP'S ASSESSMENT OF THE FIRST SESSION

¶13. (C) The Vice President gave his written assessment of the first meeting to Mohammed Ali Al-Hakim, who read aloud the VP's summary of the following topics: moving Iraq from reconstruction to growth, fighting unemployment and promoting private businesses; identifying problems; developing civil society institutions, particularly in the south; and strengthening the Council of Representatives and the government's ability to pass and implement laws. EconMinCouns thanked the Vice President for raising the issue of passing and implementing effective legislation. He noted that we are interested in learning how we can assist in ensuring that the hydrocarbon law is passed through the Council of Representatives. The VP's summary also noted the importance of executing the government budgets. VP Abdel Mehdi said that given the demographics in Iraq where 48% of the population is under 18 and 65% is under 30, it is important to support the private sector as the solution to unemployment.

U.S. ECONOMIC ACTIVITIES

¶4. (C) As requested in the first meeting of the U.S.-ISCI economic dialogue (reftel), we prepared a discussion paper on the U.S. economic strategy in Iraq, with illustrative examples of key activities. Questions in the dialogue centered on the agricultural projects and the micro-credit programs. Acting USAID Director said that a new agricultural project had just been awarded, and welcomed input into the design phase of the work in June. He also gave an overview of the existing U.S. micro-credit work throughout the country. Azez Jafar noted that the Iraqi program on micro-credit included subsidized interest rates, which Azez said he convinced the International Monetary Fund to permit. Acting USAID Director also mentioned the work the USG is doing in the banking sector, highlighting the Banking Conference in Amman in early April.

BUDGET EXECUTION

¶5. (C) EconMinCouns emphasized the importance of budget execution, as noted by the Vice President, and said it was difficult to encourage international donors to assist Iraq if the country seemed unable or unwilling to spend its own funds. Azez Jafar said that the DFI (Development Fund for Iraq) account had decreased from \$10 billion to \$5 billion, evidence that the spending units were getting the money that they needed. He said that the Minister of Finance will meet with each minister in the coming two weeks to review progress. "We are improving," Azez Jafar said.

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THE PRIVATE SECTOR

¶6. (C) Zuhair Humadi raised the need to focus on specific projects, and identify problems within the Iraqi bureaucracy. He suggested textile factories and English language institutes as possible focus areas. Azez Jafar said that Small and Medium-Sized Enterprises would provide good employment generation and opportunities for the private sector. Acting USAID Director noted that the new agricultural program will be focused in certain geographic areas, in order to develop market access and agro-business opportunities.

NEXT TOPICS AND COMMENT

¶7. (C) The group agreed that future sessions would include topics such as the Embassy's Fusion Cell (which monitors and supports fuel availability), regional experience in textiles, and provincial engagement. Mohammed Ali Al-Hakim also noted that the ISCI side could present their work on the oil and gas, and agricultural sectors. The Vice President offered to set up meetings with provincial leadership at any time. Post will invite the director of the Office of Provincial Affairs and the head of the Embassy's Fusion Cell to future meetings.

¶8. (C) Comment: This dialogue is a useful exchange of ideas, and a chance to broaden discussions beyond the current crisis of the day. We hope that we can conduct similar dialogues with other political parties. Outside events do affect the group; two members at the first meeting were unable to attend the second because they could not get through the checkpoints quickly enough. VP Advisor Mohammed Ali Al-Hakim noted that the International Zone felt less secure, and two rockets hit outside his house the previous day. Luckily, he said, a date

tree protected his house. By May 16, the day of the meeting, it had become clear that ISCI leader Abdul Aziz Al Hakim would be traveling to the U.S. for urgent medical treatment, perhaps explaining the Vice President's preoccupation.

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